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PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Telecommunications Division Carrier Branch RESOLUTION T-16711 January 16, 2003

RESOLUTION

RESOLUTION T-16711. THE SIERRA TELEPHONE COMPANY, INC. (U-1016-C). GENERAL RATE CASE FILING IN COMPLIANCE WITH G. O. 96-A, PARAGRAPH VI, AND DECISION NUMBERS 01-02-018 AND 01-05-031.

BY ADVICE LETTER NO. 285 FILED DECEMBER 21, 2001.

SUMMARY

This resolution addresses the General Rate Case filed by Sierra Telephone Company, Inc. (Sierra) through Advice Letter 285 in compliance with D.01-05-031. Sierra proposes a) no changes to its rates or charges, b) an intrastate ROR of 10.00%, the same rate of return granted in its previous GRC filing in 1997, and c) an increase of \$759,789 in its California High Cost Fund-A (CHCF-A) draw for year 2003.

This resolution authorizes total intrastate revenue in the amount of \$21,822,070 for Sierra for the test year 2003. This represents a reduction of \$4,724,308 to Sierra's estimate of \$26,546,378 for total intrastate revenue for 2003. The Total Intrastate Rate Base amount for Sierra is \$35,601,445 with an overall Intrastate Rate of Return of 10.00% for the test year 2003. Also authorized by this resolution is CHCF-A support for Sierra for test year 2003 of \$9,826,908. This amount represents a reduction of \$3,923,236 or 28.53% decrease from the CHCF-A 2002 support of \$13,750,144. This reduction is due to adjustments made to revenues, expenses and rate base.

Appendix A compares the Telecommunications Division's (TD's) and Sierra's Test Year 2003 Total Company Results of Operations before any CHCF-A adjustment. Appendix B compares TD's and Sierra's Interstate and Intrastate Results of Operations before any CHCF-A adjustment. Appendix C compares TD's and Sierra's Intrastate Results of Operations estimates after Sierra's proposed CHCF-A increase and after TD's proposed adjustments. Appendix D shows TD's calculation of the Net-to-Gross Multiplier and

the change in the gross intrastate revenue requirement based on an adopted intrastate rate of return of 10.00%.

BACKGROUND

The Sierra Telephone Company, Inc. (Sierra), a local exchange telephone utility based in Oakhurst, California, provides local exchange telephone service in parts of Mariposa and Madera counties. Sierra serves approximately 23,000 access lines in its three telephone exchanges: Coarsegold, Raymond and Mariposa.

In Decision (D.) 01-05-031, the California Public Utilities Commission (CPUC) set in motion the waterfall¹ provision in 2002 for six small LECs if they do not each file a General Rate Case (GRC) by the end of 2001.² Sierra filed Advice Letter (AL) No. 285 on December 24, 2001, with a Test Year of 2003. The last GRC filed by Sierra was in 1995 through Application 95-12-077 and its latest intrastate results of operations were authorized by Decision 97-04-032 dated April 9, 1997.³

In AL 285, Sierra proposes a) no changes to its rates or charges, b) an intrastate ROR of 10.00%, the same rate of return granted in its previous GRC filing in 1997, and c) to increase its CHCF-A draw by 5.44% or an additional \$759,789 for year 2003.

NOTICE/PROTESTS

Sierra states that a copy of the Advice Letter was mailed to competing and adjacent utilities and/or other utilities. Notice of AL 285 was published in the Commission Daily Calendar of December 24, 2001. Notice of the AL filing was made to customers by bill insert on December 21, 2001. No protest to this AL filing has been received.

TD held a Public Meeting in Oakhurst on August 12, 2002, at which time Sierra was given an opportunity to explain its filing to its customers. Sierra's customers were also given the chance to ask questions of Sierra and the TD staff, and to comment on Sierra's rates and services. Sierra's customers were given notice of the Public Meeting through bill inserts. The notice of Public Meeting was also published in the August 2, 2002 issue of the CPUC Daily Calendar. No customers attended the Public Meeting.

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¹ The waterfall provision refers to the 6-year phase down of the CHCF-A funding level beginning in 1998, the year after the completion of a GRC. The funding levels are 100% of the for the first 3 years, i.e., 1998, 1999 and 2000; 80 % the fourth year, i.e., 2001, 50% the fifth year, i.e., 2002; and 0% thereafter.

² The six companies are Evans Telephone Company, Happy Valley Telephone Company, The Ponderosa Telephone Company, Sierra Telephone Company, Inc., The Siskiyou Telephone Company, and The Volcano Telephone Company.

³ In Application 95-12-077, Sierra requested to earn a 15% rate of return on equity (ROE) while reducing rates by \$500,000; granted as modified by Decision 97-04-032, with a 10.94% authorized ROE and a reduction in rates of \$1.1 million. The mandated rates decrease were allowed to go into effect partly through elimination of the carrier's 8.57% billing surcharge and partly through elimination of charges for unlisted or unpublished number service. Basic residential monthly charges were maintained at their existing levels.

DISCUSSION

Results of Operations

TD calculates that Sierra will earn in test year 2003 a total company overall rate of return of 14.18% at present rates as compared to Sierra's calculation of 10.16%. Since TD concludes Sierra is earning well above TD's goal of an overall rate of return of 10.00%, TD has proposed changes in Sierra's revenues, expenses, and rate base as discussed below. Appendix A compares Sierra's total company results of operations for test year 2003, as estimated by TD and Sierra.

Total Operating Revenues

Sierra's estimate of total company operating revenues at \$42,455,031 exceeds TD's estimate of \$40,260,065 by \$2,194,966 or 5.5%. Differences between TD's and Sierra's estimates are described below.

Sierra's estimate of total company revenue for Local Network Services at \$7,132,175 is \$137,947 lower than TD's estimate at \$7,220,122. In determining the test year total company revenues for Local Network Services, Sierra first developed access line growth rates using regression analysis. Sierra regressed historical access lines against time for the 1996-2001 period. In support of its regression analysis, Sierra submitted a coefficient of determination of 99%. The coefficient of determination measures the strength of the relationship between the actual historical access lines and time. A coefficient of determination closer to one (100%) indicates a greater degree of relationship; while a coefficient of determination closer to zero indicates a lesser degree of relationship. Based on the regression analysis, Sierra derived full year growth rates for access lines of 3.52% for 2002 and 3.39% for 2003. TD accepts Sierra's estimates of full year growth rate for access lines.

Instead of using the full year growth rate, Sierra applied mid-year growth rates to the Average Quantity in Equivalent Units (AQEU) to develop local revenues through 2003. The AQEU is derived from the total billed amount for each service in year-end 2001 divided by the tariffed amount. The mid-year growth rate is one-half of the full year growth rate. TD determined that if mid-year growth rates were used, they would underestimate the local revenues for the full 2003 test year.

TD's methodology for estimating local revenues is similar to Sierra's but provides a more realistic projection of the expected revenues for 2002 and 2003. TD escalated the AQEU year-end amount for 2001 by the full year growth rates, and then multiplied by the tariff rates to determine the local revenues for 2002 and 2003. Since the AQEU are year-end amounts, by applying the full year growth rate, instead of the mid-year growth rate, results in a more accurate estimate for 2002 and the 2003 test year.

Resolution T-16711 Sierra AL 285/HEY

Sierra and TD also differ on estimates for Billing and Collection revenues. Sierra projected a two percent growth rate in both the intrastate and interstate Billing and Collection revenues from its subsidiary Sierra Tel Long Distance (Sierra Tel). TD rejects the two percent proposed growth rate because it is low compared to historical average growth rates. For the 1999-2001 period, the three-year average growth rates for intrastate and interstate Billing and Collection are 35.65% and 31%, respectively. ⁴ TD uses these three-year historical average rates to project Sierra's 2003 Billing and Collection intrastate and interstate revenues. TD's recommended intrastate and interstate Billing & Collection revenues are \$194,553 and \$43,978, respectively. TD's Billing & Collection revenues and other data updates⁵ result in an updated Miscellaneous revenues of \$1,617,858.

Revenues in the 2003 Interstate Network Access Services also changed from \$11,495,520 to \$11,563,085. This was due to Sierra's updating its data to reflect projections based on using 2001 actual year-end numbers, instead of using nine months data to project 2001 numbers in its original GRC filing.

Revenues in the 2003 Long Distance Network also changed from \$18,049 to zero in Sierra's updated 2003 results of operations. Sierra stated that the \$18,049 was in fact intrastate Private Line revenues and should have been recorded under Network Access Services-Intrastate. Therefore, Sierra deleted the \$18,049 from the Long Distance Network revenues and recorded the amount under the Network Access Service-Intrastate revenues. TD finds Sierra's correcting of the misidentified Network Access Service-Intrastate revenues to be reasonable.

Total Operating Expenses

Sierra's estimate of total company operating expenses at \$33,508,209 is greater than TD's estimate of \$28,616,995 by \$4,891,214or 17.1%. A comparison of TD's and Sierra's estimates of total operating expenses for test year 2003 is shown in Appendix A. Differences between TD's and Sierra's estimates are described below.

For operating expenses, Sierra used 1996-2001 actual cost study data and ran regression analysis on each account. Sierra then estimated the 2002 and 2003 expenses based on the regression analysis with the exception of Depreciation Expense, Billing & Collection Expenses, and Directory Expenses. TD accepts Sierra's alternative methodology for the three exceptions.

TD, however, disagrees with Sierra's regression analysis. Fourteen out of twenty-five expense accounts regressions had coefficient of determination results that were too low (9.36% to 79.83%) for TD to accept.

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⁴ These growth rates are already adjusted to reflect that Sierra would no longer receive Billing and Collection revenues from AT&T because their agreement had terminated as of December 31, 2001.

⁵ Miscellaneous revenues were updated using a full year of 2001 data rather than the nine months of data in Sierra's original GRC filing.

For this reason TD used Sierra's recorded labor and non-labor expenses and applied the constant dollar method to estimate Sierra's 2003 expenses. The Commission in Siskiyou's 1997 test year rate case proceeding discussed and adopted Commission staff's use of the constant dollar methodology. In Finding of Fact 6 of Resolution T-16006, the Commission found "...TD's methodology in estimating expenses reasonable and adopt TD's recommended test year 1997 expenses contained in Appendix A." ⁶

TD used Sierra's recorded expense figures from the annual reports for the years 1999, 2000 and 2001⁷ and then applied the recorded inflation factors for labor and non-labor for each year to convert the recorded expenses to constant 2001 dollars. ⁸ TD then took the three-year constant dollar average and applied the estimated inflation factors for 2002 and 2003. TD's estimation of utilizing the constant dollar method resulted in \$18,197,420 for operating expenses, 21.4% less than Sierra's estimates of \$22,969,500.

To calculate depreciation expenses, both TD and Sierra utilized the same methodology and depreciation rates previously adopted by the Commission for Sierra. The difference in depreciation expense of \$109,502 is due to the difference in plant-inservice. TD's depreciation expense was computed using TD's plant-in-service estimates for 2002 multiplied by the current depreciation rates to derive 2002 figures. To estimate 2003 figures, TD used its projected depreciable plant in service for 2002 and applied the current depreciation rates previously approved by the Commission for Sierra in Resolution T-14000.

Taxes

TD's estimate of Total Operating Taxes at \$4,777,957 is 29.2% greater than that computed by Sierra. Although TD and Sierra both used a Corporate State Franchise Tax (CCFT) rate of 8.84% and a federal income tax rate of 34.00%, differences between Sierra's and TD's estimates of income, revenue, and expenses resulted in the Total Operating Taxes differences.

Rate Base

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Factors for 2002-2004. as follows:

Year	Labor	Non-labor
2000	1.022	1.036
2001	1.034	1.000
2002	1.028	0.999
2003	1.018	1.018
2004	1.026	1.021

⁶ At page 5 of Resolution T-16006, the Commission stated "Generally for traditional GRCs, the Commission adopts the constant dollar method".

⁷ Revised ARMIS Report (FCC ARMIS 43-02 Report Format) of Sierra's Annual Reports for 1999, 2000 and 2001. ⁸ TD used the March 2002 DRI-WEFA U.S. Economic Outlook estimates of Non-Labor and Wage Escalation

Resolution T-16711 Sierra AL 285/HEY

TD examined Sierra's Rate Base components, which include Telephone Plant-in-Service, Telephone Plant-under-Construction, Materials & Supplies, Customer Deposits, and Working Cash. TD concurs with Sierra's estimate of Materials & Supplies and Customer Deposits as updated. TD disagrees with Sierra's estimates of Plant-in-Service, Plant-under-Construction, and Working Cash.

TD's Working Cash test year 2003 estimate is \$1,314,508, or 14.3% lower than that computed by Sierra, due to TD's higher revenue and lower expense estimates.

TD's review of Sierra's plant-in-service showed that Sierra had a large increase in both land and building purchases in 2001. TD visited the building during the field inspection and discovered that it remains vacant, except for a portion that was leased to a game development company from whom Sierra had bought the building. Sierra indicated that it acquired the building in 2001 for \$912,874, and paid \$391,000 for the land as part of the total valuation. Since the purchase was made in 2001, Sierra included the building and land in the regulated rate base for years 2001, 2002, and 2003. Sierra notes that the first floor office space is currently leased to the game company rent-free as part of the purchase agreement until August 1, 2003. Sierra is still uncertain as to which personnel will be occupying the second floor space. Since the building and land is not currently used and useful, TD does not believe Sierra should be allowed to include the purchase of the building and land in the rate base for the 2003 test year. Therefore, TD recommends an average plant-in-service of \$125,670,271, which excludes \$1,303,874, the total cost of the building and land. 9

Sierra's Plant-under-Construction amounts for years 2002 and 2003 were based on a historical review of the account rather than specific work orders anticipated to be opened at year-end. It is TD's policy to disallow any Plant-under-Construction in rate base because the utility, not ratepayers, should bear the full burden of project construction costs until the project is operative. Additionally, Sierra's estimates are questionable because the Plant-under-Construction estimates were based on projections of historical accounts instead of actual work orders. Consistent with TD's policy on Plant-under-Construction and insufficient support for Sierra's estimates, TD recommends that the total Plant-under-Construction of \$2,100,000 be excluded from Sierra's rate base estimates.

Separations

Sierra provides both intrastate and interstate telecommunications services, subject to the regulation of the CPUC and FCC, respectively. Because Sierra's property serves both jurisdictions, the utility's revenues, expenses, taxes, investments, and reserves are allocated (separated) between interstate and intrastate services according to FCC rules. TD has reviewed Sierra's separation factors and finds them to be reasonable. Appendix

⁹ Average plant in service also was updated for a full year of 2001 data rather than the nine months of data in Sierra's Original GRC filing.

B compares Sierra's and TD staff's total company interstate and intrastate results of operations for test year 2003 using these separation factors.

Cost of Capital

Sierra requests an overall intrastate rate of return of 10.00%. This is the same rate of return that was authorized under D.97-04-032 for its last general rate case filing for test year 1997.

The Return on Equity for all rural ILECs should be the same since the systematic and non-diversifiable risks faced by all rural ILECs are similar. As a matter of practice, Decision D.97-04-036 in A.95-12-073¹⁰ adopted an 'overall' rate of return of 10.00% for all rural ILECs. Based on information provided, TD recommends that the Commission should approve Sierra's request for an overall rate of return of 10.00% at this time. This approval should not set a precedent for any future or pending small ILEC GRC proceeding.

Net-to-Gross Multiplier

The net-to-gross multiplier indicates the unit change in gross revenues required to produce a unit change in revenues. Appendix D shows TD's computation of Sierra's net-to-gross multiplier. The net-to-gross multiplier of 1.66207 means that a change of \$1,662 in gross revenue would be required to produce a change of \$1,000 in net revenue. For Sierra, based on a recommended state rate base of \$35,601,445 and rate of return of 10.00%, the recommended intrastate revenue requirement change required is a reduction of \$1,071,535.

CHCF-A Support

D.01-02-018 approved Settlement Transition Agreements (STAs) between Pacific Bell and the small Local Exchange Companies (small LECs). Monies that Pacific Bell paid the small LECs through toll and access pool settlements were replaced by authorized draws from the CHCF-A. The CHCF-A itself was originally established by D.85-06-115 as a means of subsidizing reasonable basic exchange rates for the customers of small LECs that adopted Pacific's statewide average toll, tool private line, and access rates (settlement pools). D.01-02-018 required the small LECs' replacement funding for the STAs be subject to the same rules that apply to current draws from the CHCF-A, namely rates shall be increased to a ceiling as necessary and both the means test and the waterfall provisions should apply.

In 2002, Sierra's draw from the CHCF-A was \$13,955,628 of which \$205,484 represents nonrecurring costs, specifically its 2001 IntraLATA Presubscription Expenses and

¹⁰ In D.97-04-036 the Commission authorized California-Oregon Telephone Company a 10.00% return on rate base for its 1997 test year as requested in A.95-12-073 (California-Oregon's 1997 General Rate Case application).

change in its weighting of Digital Equipment Minutes (DEM). ¹¹ DEM are the minutes of holding time of originating and terminating local dial equipment and serves as a standard cost allocator. For small local exchange carriers, the DEM is weighted or multiplied to allocate additional costs to the interstate jurisdiction. Since \$205,484 is a nonrecurring cost that occurred in 2001, TD removed this amount from the 2002 CHCF-A draw. The adjusted 2002 CHCF-A draw is \$13,750,144.

Sierra's request for an additional draw from the CHCF-A of \$759,789 included a three-year amortization recovery of rate case expenses in the total amount of \$11,941. From Sierra's workpapers, TD finds that an additional draw of \$747,681 would have been sufficient for the company to earn a 10.00% intrastate rate of return prior to any TD adjustments. Including the recovery expense after adjustments would cause Sierra's intrastate rate of return to exceed 10.00%.

TD calculated Sierra's CHCF-A support for test year 2003 at present rates to be \$10,898,442. The CHCF-A 2003 support is derived from using Sierra's 2002 initial draw of \$13,955,628, adding the \$2,951,674 NECA estimated USF Federal support for 2002, subtracting Sierra's projected 2003 USF Federal support of \$5,803,376¹², and removing the non-recurring DEM cost of \$205,484. ¹³

However, if Sierra is authorized to receive \$10,898,442 in CHCF-A support, then based on TD's adjustments in revenues, expenses and rate base, Sierra's intrastate rate of return would be at 10.57%, which would exceed the 10.00% goal. Therefore, for test year 2003, TD 's computation of Sierra's adopted CHCF-A requirement is \$9,826,908 based on its recommended revenues, expenses, rate base and overall intrastate rate of return of 10.00%.

COMMENTS

The draft resolution of the Telecommunications Division on this matter was mailed to the parties in accordance with PU Code Section 311 (g)(1).

Commission approval is based on the specifics of this Advice Letter and does not establish a precedent for the contents of any future filings by small ILECs.

FINDINGS

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¹¹ Resolution T-16619, page 8 and Page 13 of the Appendix.

¹² Federal USF support is based on the 2003 projected payments for the California Exchange carriers as filed by the National Exchange Carriers Association, Inc. (NECA) on October 1, 2002 with the Federal Communications Commission

¹³ This calculation follows CHCF-A Implementation Rules in accordance with guidelines summarized in the Appendix of D.91-09-042.

- 1. Sierra filed its GRC on December 21, 2001, with a Test Year of 2003 in compliance with Decision 01-05-031.
- 2. Sierra requests the following for test year 2003:
 - An increase in its CHCF-A draw for 2003 by 5.44% or \$759,789 for a 2003 CHCF-A support of \$14,715,417;
 - An intrastate rate of return of 10.00%, the same return granted to them in their last GRC filing in 1997;
 - No change in its rate or charges; and
 - A total intrastate rate base amount of \$38.051.210.
- 3. The Telecommunications Division (TD) recommends the following for Sierra for test year 2003:
 - A California High Cost Fund-A (CHCF-A) support of \$9,826,908;
 - An Intrastate Rate of Return of 10.00%;
 - A revenue requirement reduction of \$1,071,535; and
 - A total intrastate rate base amount of \$35,601,445.
- 4. The differences in the revenue, expenses, and rate base estimates between Sierra and TD result from both updates and the use of different methodologies.
- 5. The Commission finds TD's methodology in estimating revenues to be reasonable. The Commission therefore adopts TD's recommended intrastate revenues as shown in Appendix C.
- 6. The Commission accepts TD's recommended overall intrastate rate of return of 10.00% for Sierra.
- 7. The Commission finds Sierra's depreciation rates adopted in Resolution T-14000 for its 1997 GRC to be acceptable for ratemaking purposes for Sierra 's 2003 test year.
- 8. The Commission finds TD's recommended \$9,826,908 CHCF-A support for Sierra for 2003 to be acceptable. The \$9,826,908 CHCF-A support is based on the Commission's adoption of TD's Intrastate Results of Operations for Sierra for test year 2003.
- 9. The Commission finds TD's recommendation to exclude the total Plant-under-Construction of \$2,100,000 to be reasonable.

THEREFORE, IT IS ORDERED that:

- 1. The intrastate revenues, expenses, and rate base amounts for test year 2003 identified in Appendix C, column (E) are adopted for The Sierra Telephone Company, Inc.
- 2. The overall intrastate rate of return of 10.00% is adopted for Sierra.
- 3. The depreciation rates submitted by The Sierra Telephone Company, Inc. in support of its General Rate Case Advice Letter No. 285 is adopted for ratemaking purposes.
- 4. The Sierra Telephone Company, Inc.'s CHCF-A draw for 2003 is \$9,826,908.

This Resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on January 16, 2003. The following Commissioners approved it:

WESLEY M. FRANKLIN Executive Director

APPENDIX A

THE SIERRA TELEPHONE COMPANY, INC. TOTAL COMPANY RESULTS OF OPERATIONS AT PRESENT RATES TEST YEAR 2003

		SIERRA ¹⁴	TD ¹⁵	Utility Exceed Amount	Percent Change
		(a)	(b)	(c) = (a)-(b)	(d) = (c)/(b)
	ATING REVENUES:				
1	Local Network Services	7,132,175	7,270,122	(137,947)	(1.9)
2	Local Services - CHCF-A	13,955,628	10,898,442	3,057,186	28.1
3	Long Distance Network	18,049	0	18,049	100.0
	Network Access Svces:				
4	Intrastate	3,196,334	3,118,523	77,811	2.5
5	Interstate	11,495,520	11,563,085	(67,565)	(0.6)
6	Interstate - USF	5,160,814	5,803,376	(642,562)	(11.1)
7	Miscellaneous	1,507,637	1,617,858	(110,221)	(6.8)
8	LESS: Uncollectible Rev.	(11,126)	(11,341)	215	(1.9)
9	Total Oper. Revenues	42,455,031	40,260,065	2,194,966	5.5
OPER	ATING EXPENSES:				
10	Plant Specific	9,039,700	6,087,946	2,951,754	48.5
11	Plant Non-Specific (less depr.)	2,315,200	2,250,170	65,030	2.9
12	Depreciation & Amortization	10,529,077	10,419,575	109,502	1.1
13	Customer Operations	4,379,932	3,851,540	528,392	13.7
14	Corporate Operations	7,244,300	6,007,764	1,236,536	20.6
15	Total Oper. Expenses	33,508,209	28,616,995	4,891,214	17.1
	ATING TAXES:			(227 222)	(0= 0)
16	Operating State Inc. Taxes	689,654	927,260	(237,606)	(25.6)
17	Operating Fed Income Taxes	2,353,715	3,186,797	(833,082)	(26.1)
18	Taxes Other Than Income	655,500	663,900	(8,400)	(1.3)
19	Total Operating Taxes	3,698,869	4,777,957	(1,079,088) 0	(22.6)
20	Net Operating Revenue	5,247,953	6,865,113	(1,617,160)	(23.6)
RATE	BASE (Beginning + End of Year Average)				
21	Telephone Plant-in-Service	128,072,519	125,670,271	2,402,248	1.9
22	Tel. Plt Under Construction	2,100,000	0	2,100,000	(100.0)
23	Mat & Supplies	750,000	750,000	0	0.0
24	Working Cash	1,533,208	1,314,508	218,700	16.6
25	Less: Deprec. Res.	(74,336,891)	(72,857,297)	(1,479,594)	2.0
26	Def. Taxes	(6,571,560)	(6,581,570)	10,010	(0.2)
27	Customer Deposit	(20,000)	(9,974)	(10,026)	100.5
28	RTB Stock	124,029	124,029	0	0.0
29	Total Rate Base	51,651,305	48,409,967	3,241,338	6.7
30	Rate of Return	<u>10.16%</u>	<u>14.18%</u>		

14 As original filed in December 2001, without company updates. 15 Includes Sierra updates.

APPENDIX B

THE SIERRA TELEPHONE COMPANY, INC. RESULTS OF OPERATIONS AT PRESENT RATES INTERSTATE AND INTRASTATE TEST YEAR 2003

	<u>Sierrra</u>		<u>TD</u>			
	Subject To Separations (a)	Interstate (b)	Intrastate ¹⁶ Total (c)= (a-b)	Subject To Separations (d)	Interstate (e)	Intrastate ¹⁷ Total (f)= (d-e)
OPERATING REVENUES:						
Local Network Services	7,132,175	0	7,132,175	7,270,122		7,270,122
2 Local Servics - CHCF-A	13,955,628	0	13,955,628	10,898,442		10,898,442
3 Long Distance Network	18,049	0	18,049	0		
Network Access Svces:						
4 Intrastate	3,196,334	0	3,196,334	3,118,523		3,118,523
5 Interstate 6 Interstate - USF	11,495,520 5,160,814	11,495,520 5,160,814	0 0	11,563,085 5,803,376	11,563,085 5,803,376	0
7 Miscellaneous	1,507,637	0	1,507,637	1,617,858	0	1,617,858
8 LESS: Uncollectible Rev.	(11,126)	0	(11,126)	(11,341)		(11,341)
9 Total Oper. Revenues	42,455,031	16,656,334	25,798,697	40,260,065	17,366,461	22,893,604
OPERATING EXPENSES:						
10 Plant Specific	9,039,700	2,332,935	6,706,765	6,087,946	1,571,156	4,516,790
11 Plant Non-Specific (less depr.)	2,315,200	649,539	1,665,661	2,250,170	631,295	1,618,875
12 Depreciation & Amortization	10,529,077	2,683,543	7,845,534	10,419,575	2,655,634	7,763,941
13 Customer Operations	4,379,932	907,590	3,472,342	3,851,540	798,099	3,053,441
14 Corporate Operations	7,244,300	1,723,117	5,521,183	6,007,764	1,428,997	4,578,767
15 Interstate Expense AdjUSF	0	5,160,814	(5,160,814)	0	5,803,376	(5,803,376)
16 Total Oper. Expenses	33,508,209	13,457,538	20,050,671	28,616,995	12,888,557	15,728,438
OPERATING TAXES:						
17 Operating State Inc. Taxes	689,654	256,522	433,132	927,260	369,405	557,854
18 Operating Fed Income Taxes	2,353,715	882,646	1,471,069	3,186,797	1,278,431	1,908,366
19 Taxes Other Than Income	655,500	167,650	487,850	663,900	169,798	494,102
20 Total Operating Taxes	3,698,869	1,306,818	2,392,051	4,777,957	1,817,634	2,960,322
21 Net Operating Revenue	5,247,953	1,891,978	3,355,975	6,865,113	2,660,270	4,204,844
RATE BASE (Beginning + End of Year Average)						
22 Telephone Plant-in-Service	128,072,519	33,374,850	94,697,669	125,670,271	32,748,840	92,921,431
23 Tel. Plt Under Construction	2,100,000	547,246	1,552,754	0	0	0
24 Mat & Supplies	750,000	203,661	546,339	750,000	203,661	546,339
25 Working Cash	1,533,208	270,008	1,263,200	1,314,508	270,008	1,044,500
26 Less: Deprec. Res.	(74,336,891)	(19,177,905)	(55,158,986)	(72,857,297)	(18,796,190)	(54,061,107)
27 Def. Taxes	(6,571,560)	(1,736,582)	(4,834,978)	(6,581,570)	(1,739,227)	(4,842,343)
28 Customer Deposit	(20,000)	(5,212)	(14,788)	(9,974)	(2,599)	(7,375)
29 RTB Stock	124,029	124,029	0	124,029	124,029	0
30 Total Rate Base	51,651,305	13,600,095	38,051,210	48,409,967	12,808,522	35,601,445
31 Rate of Return	<u>10.16%</u>	<u>13.91%</u>	<u>8.82%</u>	<u>14.18%</u>	<u>20.77%</u>	<u>11.81%</u>

 $^{^{16}}$ As original filed in December 2001, without company updates. 17 Includes Sierra updates.

APPENDIX C

THE SIERRA TELEPHONE COMPANY, INC. INTRASTATE RESULTS OF OPERATIONS AT ADOPTED RATE OF RETURN TEST YEAR 2003

		SIERRA ¹⁸	TD^{19}	UTILITY EXCEED STAFF		
		Proposed (a)	Proposed (b)	AMOUNT (c)	PERCENT (d)	ADOPTED (e)
OPE	RATING REVENUES:					
1	Local Network Services	7,132,175	7,270,122	(137,947)	(1.9)	7,270,122
2	Local Services - CHCF-A	14,703,309	9,826,908	4,876,401	49.6	9,826,908
3	Long Distance Network	18,049	0	18,049	100.0	0
4	Network Access Svces: Intrastate	3,196,334	3,118,523	77,811	2.5	3,118,523
5	Interstate	3,190,334	3,110,323	0	0.0	3,110,323
6	Interstate - USF	0	0	0	0.0	0
7	Miscellaneous	1,507,637	1,617,858	(110,221)	(6.8)	1,617,858
8	LESS: Uncollectible Rev.	(11,126)	(11,341)	215	(1.9)	(11,341)
9	Total Oper. Revenues	26,546,378	21,822,070	4,724,308	21.6	21,822,070
OPE	RATING EXPENSES:					
10	Plant Specific	6,706,765	4,516,790	2,189,975	48.5	4,516,790
11	Plant Non-Specific (less depr.)	1,665,661	1,618,875	46,786	2.9	1,618,875
12	Depreciation & Amortization	7,845,534	7,763,941	81,593	1.1	7,763,941
13	Customer Operations	3,472,342	3,053,441	418,901	13.7	3,053,441
14	Corporate Operations	5,521,183	4,578,767	942,416	20.6	4,578,767
15	Interstate Expense AdjUSF	(5,160,814)	(5,803,376)	0	(11.1)	(5,803,376)
16	Total Oper. Expenses	20,050,671	15,728,438	3,679,671	27.5	15,728,438
OPE	RATING TAXES:					
17	Operating State Inc. Taxes	499,227	463,131	36,096	7.8	463,131
18	Operating Fed Income Taxes	1,702,809	1,576,250	126,559	8.0	1,576,250
19	Taxes Other Than Income	487,850	494,102	(6,252)	(1.3)	494,102
20	Total Operating Taxes	2,689,886	2,533,483	156,403	6.2	2,533,483
21	Net Operating Revenue	3,805,821	3,560,149	888,234	6.9	3,560,149
RAT	E BASE (Beginning + End of Year Average)					
22	Telephone Plant-in-Service	94,697,669	92,921,431	1,776,238	1.9	92,921,431
23	Tel. Plt Under Construction	1,552,754	0	1,552,754	100.0	0
24	Mat & Supplies	546,339	546,339	0	0.0	546,339
25	Working Cash	1,263,200	1,044,500	218,700	20.9	1,044,500
26	Less: Deprec. Res.	(55,158,986)	(54,061,107)	(1,097,879)	2.0	(54,061,107)
27	Def. Taxes	(4,834,978)	(4,842,343)	7,365	(0.2)	(4,842,343)
28	Customer Deposit	(14,788)	(7,375)	(7,413)	100.5	(7,375)
29	RTB Stock	0	0	0	0.0	0
30	Total Rate Base	38,051,210	35,601,445	2,449,765	3.9	35,601,445

¹⁸ As original filed in December 2001, without company updates. ¹⁹ Includes Sierra updates.

31 Rate of Return 10.00% 10.00% 10.00%

APPENDIX D

THE SIERRA TELEPHONE COMPANY, INC. ADOPTED NET-TO-GROSS MULTIPLIER INTRASTATE REVENUE REQUIRMENT AND CHCF-A SUPPORT TEST YEAR 2003

1	Gross Revenues		1.00000				
2	Uncollectibles ²⁰		0.00000				
3	Net Revenues		1.00000				
4	State Income Tax (Tax Rate times In 3.)	8.84%	0.08840				
5	Federal Taxable Income(In 3. less In 4.)		0.91160				
6	Federal Income Tax (Tax Rate time In 5.)	34.00%	0.30994				
7	Net Income (In 5. Less In 6.)		0.60166				
8	NET TO GROSS MULTIPLIER (In 1. divided by In 7.)	[1.66207				
	Intrastate Revene Requirement						
9	Adopted State Rate Base		\$35,601,445				
10	Net Revenues Adopted at 10.00%	10.00%	\$3,560,145				
11	Net Revenues at Present Rates	[\$4,204,844				
12	Change in Net Revenues (In 10. less In 11.)	[(\$644,699)				
13	GROSS REVENUE CHANGE REQUIRED (In 12. times In 8.)	[(\$1,071,535)				
	CHCF-A Support						
14	Recovery of Rate Case Expenses (3-year amortization)	[\$0				
15	2003 CHCF-A Support at Present Rates	[\$10,898,442				
16	2003 CHCF-A Support Adopted (In 17. add In 15.)	[\$9,826,907				

²⁰ Uncollectibles are included in Line 1, Gross Revenues.